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PRESTON MINES LIMITED

ANNUAL REPORT 1974

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Preston

MINES LIMITED

120 Adelaide Street West

Toronto, Canada M5H 1W5

Annual Report 1974

Directors

G. R. ALBINO
Executive Vice-President and Chief Operating Officer, Rio Algom Mines Limited (1), Toronto

*R. D. ARMSTRONG
President and Chief Executive Officer, Rio Algom Mines Limited (1), Toronto

†G. BAKER
Vice-President and General Manager, Tinto Holdings Canada Limited (3), Toronto

*J. IAN CROOKSTON
Chairman, Nesbitt, Thomson and Company, Limited, Investment Dealers, Toronto

DR. G. B. LANGFORD
Retired, former Professor of Mining Geology, University of Toronto, Toronto

R. D. LORD
Vice-President, Mining Research and Development, Rio Algom Mines Limited (1), Toronto

*B. R. MacKENZIE, Q.C.
Counsel to Fasken & Calvin, Barristers & Solicitors, Toronto

W. C. PITFIELD
President, Pitfield, Mackay, Ross & Company Limited, Investment Dealers, Toronto

R. W. WRIGHT, CBE
Deputy Chairman and Deputy Chief Executive, The Rio Tinto-Zinc Corporation Limited (2), London, England

* Members of the Audit Committee

† Not standing for re-election

Officers

R. D. ARMSTRONG, President
President and Chief Executive Officer, Rio Algom Mines Limited (1), Toronto

G. R. ALBINO, Vice-President
Executive Vice-President and Chief Operating Officer, Rio Algom Mines Limited (1), Toronto

G. BAKER, Vice-President
Vice-President and General Manager, Tinto Holdings Canada Limited (3), Toronto

A. C. TURNER, Secretary
Vice-President, Secretary, Rio Algom Mines Limited (1), Toronto

J. VAN NETTEN, Treasurer
Vice-President, Treasurer, Rio Algom Mines Limited (1), Toronto

(1) Exploration for and mining of ores and minerals and manufacture and distribution of stainless and specialty steel mill products.

(2) The parent of an international group of mining and industrial companies.

(3) The holding company for certain Canadian interests of The Rio Tinto-Zinc Corporation.

ANNUAL AND GENERAL MEETING

The Company will hold an Annual and General Meeting on Tuesday, April 29, 1975 at 11:00 a.m. (Toronto time) in the Conference Room, 26th floor, 120 Adelaide Street West, Toronto, Canada M5H 1W5.

Directors' Report to the Shareholders:

Your Directors are pleased to submit this report on the operations and financial position of the Company for the year ended December 31, 1974.

FINANCIAL

Net earnings for 1974 were $19,243,682 representing $2.45 per share as compared with $22,871,685 or $2.91 per share in the previous year. The net earnings for both years are after including equity in net earnings of Rio Algom Mines Limited of $19,017,896 and $22,696,496 respectively, representing the Company's 43.90% share (43.91% in 1973) of the consolidated net earnings of that company.

Dividends received from Rio Algom Mines Limited were $5,382,400 in 1974 and $3,767,680 in 1973. Dividends paid by the Company during the year were $5,494,533 or 70 cents per share comprising dividends of 35 cents per share paid on June 28, 1974 and on December 31, 1974. In 1973 dividends paid were $3,846,173 or 49 cents per share comprising dividends of 14 cents and 35 cents per common share paid on June 29, 1973 and December 28, 1973 respectively.

INVESTMENT IN RIO ALGOM MINES LIMITED

No change has been made in the Company's investment in Rio Algom which remains at 5,382,400 common shares; this represents an interest of 43.90% of the issued common shares of that company and is the principal asset of Preston. For your information and with the consent of Rio Algom the 1974 Annual Report of that company is forwarded to you with this report.

STANLEIGH PROPERTY

In 1970 it was reported that preliminary estimates of ore reserves, capital costs and operating costs indicated that uranium prices then available were too low to permit profitable operation of the Company's Stanleigh uranium property. It was therefore not expected that the mine would be reopened for some time.

The long-term demand for uranium that has been established and the long-term price levels now predicted enhance the possibility of economic recovery of ore reserves. On the other hand, because of inflation experienced over the past several years and at the rate of inflation being experienced now, the current preliminary estimates of capital costs and operating costs are significantly greater than the estimates made in 1970. Under these dramatically changing circumstances the economic viability of the Stanleigh ore reserves will continue to be kept under review.

DIRECTORS

Mr. George Baker is retiring from the Board of Directors at the Annual and General Meeting of Shareholders to be held on April 29, 1975. Mr. Baker served as Secretary of Preston and of a company affiliated with the predecessors of Preston in the period 1956 to 1968 and as a Director of Preston since 1965. His fellow Directors wish to record their appreciation to Mr. Baker for his contribution to the Company.

You will be asked at the Annual and General Meeting of Shareholders to authorize a decrease in the Board of Directors from nine members to eight.

On behalf of the Board
R. D. Armstrong,
President

Toronto, Canada
February 28, 1975

Auditors' Report

To the Shareholders of
Preston Mines Limited:

We have examined the statement of financial position of Preston Mines Limited as at December 31, 1974, and the statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1974 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 27, 1975

COOPERS & LYBRAND
Chartered Accountants

Preston Mines Limited

(Incorporated under the laws of Ontario)

Statement of Financial Position
December 31, 1974

	1974	1973
CURRENT ASSETS:		
Cash and short-term deposits	**$ 1,556,468**	$ 1,479,505
Accounts receivable	**82,358**	31,525
Accounts receivable from affiliated companies	**5,110**	19,573
	1,643,936	1,530,603
Less:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	**9,027**	9,347
Unclaimed dividends	**137,983**	137,983
	147,010	147,330
WORKING CAPITAL	**1,496,926**	1,383,273
Investment in Rio Algom Mines Limited		
5,382,400 common shares (note 1)	**110,079,940**	96,444,444
Debentures, at cost	**477,500**	477,500
Mining properties, less amortization (note 2)	**2**	2
Deferred development expenditure	**592,860**	592,860
EXCESS OF ASSETS OVER LIABILITIES	**$112,647,228**	$ 98,898,079
OWNERSHIP EVIDENCED BY:		
Capital stock		
Authorized:		
1,069,925 4% cumulative, redeemable, non-voting preference shares with a par value of 50 cents each		
10,000,000 common shares without par value		
Issued:		
7,849,333 common shares	**$ 26,910,985**	$ 26,910,985
Contributed surplus	**24,993,673**	24,993,673
Retained earnings	**60,742,570**	46,993,421
	$112,647,228	$ 98,898,079

Approved on behalf of the Board:

J. I. CROOKSTON, Director

R. D. ARMSTRONG, Director

Statement of Earnings and Retained Earnings

YEAR ENDED DECEMBER 31, 1974

EARNINGS

REVENUE:	1974	1973
Proceeds from sales of plant and equipment	$ 171,485	$ 89,286
Less cost of reconditioning equipment sold	23,964	27,208
	147,521	62,078
Investment and other income	194,881	215,781
	342,402	277,859
EXPENSE:		
Idle mine expense	38,884	40,707
Administrative and general expense	77,732	61,963
	116,616	102,670
Operating profit	225,786	175,189
Equity in net earnings of Rio Algom Mines Limited	19,017,896	22,696,496
NET EARNINGS FOR THE YEAR (note 3)	$19,243,682	$22,871,685
Earnings per common share		
— Operating profit	$ .03	$ .02
— Net earnings for the year	2.45	2.91

RETAINED EARNINGS

BALANCE, beginning of year	$46,993,421	$27,967,909
Net earnings for the year	19,243,682	22,871,685
	66,237,103	50,839,594
Dividends paid on common shares	5,494,533	3,846,173
BALANCE, end of year	$60,742,570	$46,993,421

Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1974

	1974	1973
SOURCE OF FUNDS:		
Net earnings before equity in net earnings of Rio Algom Mines Limited	$ 225,786	$ 175,189
Dividends from Rio Algom Mines Limited	5,382,400	3,767,680
	5,608,186	3,942,869
DISPOSITION OF FUNDS:		
Dividends on common shares	5,494,533	3,846,173
INCREASE IN WORKING CAPITAL	113,653	96,696
WORKING CAPITAL, beginning of year	1,383,273	1,286,577
WORKING CAPITAL, end of year	$1,496,926	$1,383,273

Notes to Financial Statements

DECEMBER 31, 1974

1. Investment in Rio Algom Mines Limited

The Company's investment in common shares of Rio Algom Mines Limited represents 43.90% (1973 — 43.91%) of the issued common shares of Rio Algom and is carried on the equity accounting basis. The cost of the Company's investment exceeded its equity in the net assets of Rio Algom at date of acquisition by $11,221,004 and this excess has been written off to retained earnings.

2. Plant and equipment consists of:

	1974	1973
Buildings, machinery and equipment, at cost	$9,261,929	$9,900,933
Less accumulated depreciation	9,261,929	9,900,933
	$ —	$ —
Mining properties consist of:		
Mining properties, at cost	569,789	569,789
Less accumulated amortization	569,787	569,787
	$ 2	$ 2

3. Income and mining taxes

Because of the exemptions and deductions permitted for tax purposes, it is estimated that the Company has no liability for income or mining taxes for the year.

4. Remuneration of directors and senior officers

During the year ended December 31, 1974 the aggregate direct remuneration paid or payable by the Company to the directors and senior officers of the Company was $10,600.

Supplementary Information

Five Year Review

($000's omitted)

	1974	1973	1972	1971	1970
Proceeds from sale of plant and equipment	$ 171	$ 89	$ 73	$ 116	$ 230
Less cost of reconditioning equipment sold	24	27	7	9	44
	147	62	66	107	186
Investment and other income	195	216	116	104	134
	342	278	182	211	320
Expenses					
Idle mine expense	39	41	53	52	136
Administrative and general	77	62	61	51	72
	116	103	114	103	208
Operating profit	226	175	68	108	112
Equity in net earnings of Rio Algom Mines Limited	19,018	22,697	6,815	3,902	6,404
Net earnings from operations	19,244	22,872	6,883	4,010	6,516
Less equity in extraordinary items of Rio Algom Mines Limited	—	—	—	—	584
NET EARNINGS FOR THE YEAR	$ 19,244	$ 22,872	$ 6,883	$ 4,010	$ 5,932
Earnings per share	$ 2.45	$ 2.91	$ 0.88	$ 0.51	$ 0.76
Dividends paid ($000's)	$ 5,495	$ 3,846	$ 2,198	$ 2,198	$ 2,198
Per share of common stock	70¢	49¢	28¢	28¢	28¢
Common shares outstanding (000's)	7,849	7,849	7,849	7,849	7,849
Number of shareholders	3,400	3,500	3,600	3,800	4,000

Price Range of Common Shares

The following table indicates the high and low closing prices for Preston Common Shares on The Toronto Stock Exchange for the periods indicated, as reported by *The Toronto Stock Exchange Review*.

		High	Low
1973	1st Quarter	$13	$ 8.65
	2nd Quarter	12 5/8	9.40
	3rd Quarter	14 6/8	11 4/8
	4th Quarter	19	13 3/8
1974	1st Quarter	18 4/8	16 2/8
	2nd Quarter	17 2/8	12
	3rd Quarter	14	9 5/8
	4th Quarter	12 4/8	9 2/8

Preston Mines Limited

Miscellaneous Corporate Information

Head Office

120 Adelaide Street West, Toronto, Canada M5H 1W5

Bankers

The Toronto-Dominion Bank	Toronto, Ontario

Auditors

Coopers & Lybrand, Chartered Accountants	Toronto, Ontario

Transfer Agents

Common Shares

Canada Permanent Trust Company	Toronto, Ontario
Canadian Bank of Commerce Trust Company	New York, N.Y.

Common Shares Listed

Toronto Stock Exchange	Toronto, Ontario
American Stock Exchange	New York, N.Y.

Form 10-K Annual Report

The Company's Form 10-K annual report for 1974 to the United States Securities and Exchange Commission will be available after April 30, 1975 on written request to the Secretary of the Company.

Rio Algom

Rio Tinto

Printed in Canada.

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PRESTON MINES LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the six months ended June 30, 1974

($000's omitted)

	1974	*1973*
Source of Funds:		
Net earnings before equity in net earnings of Rio Algom Mines Limited	$ 52	$ 19
Dividends from Rio Algom Mines Limited	2,691	1,076
	2,743	1,095
Disposition of Funds:		
Dividends on common shares	2,747	1,099
Decrease in Working Capital	**(4)**	**(4)**
Working Capital, beginning of period	1,383	1,287
Working Capital end of period	**$1,379**	**$1,283**

Preston Mines Limited

Interim Report to the Shareholders

for the six months ended June 30, 1974

TO THE SHAREHOLDERS:

Net earnings for the first six months of 1974 were $12,801,000 compared with $9,016,000 for the same period in 1973. The comparative earnings per share were $1.63 and $1.15 respectively.

The improvement in earnings over last year was due to the increased earnings of Rio Algom Mines Limited. Rio Algom's net earnings were $29,408,000 and $20,857,000 for the six month periods ending June 30, 1974, and June 30, 1973, respectively and Preston's equity therein (1974-43.90%; 1973-43.94%) was $12,749,000 in 1974 and $8,997,000 in 1973.

The Company's major asset continues to be its investment in Rio Algom. Rio Algom's earnings for the first six months of 1974 were higher than for the same period in 1973 primarily due to increased sales and improved earnings in the Company's steel operations, higher copper prices at the Lornex and Poirier mines and higher uranium earnings, partly offset by a substantial increase in provisions for income and mining taxes and government royalty.

In the first six months of 1974 Lornex Mining Corporation Ltd., in which Rio Algom has a 56% equity, recorded net earnings of $21,068,000 compared to $12,367,000 in the same period in 1973. Since the provisions of British Columbia's Bill 31, a Mineral Royalties Act which has received royal assent but has not yet been promulgated, are retroactive to January 1, 1974, Lornex has made a provision for the royalties estimated to be payable.

Toronto, Canada
July 29, 1974

R. D. ARMSTRONG
President

PRESTON MINES LIMITED

STATEMENT OF EARNINGS

for the six months ended June 30, 1974

($000's omitted)

	1974	*1973*
Revenue:		
Proceeds from sales of plant and equipment	$ 30	$ 34
Less cost of reconditioning equipment sold	6	24
	24	10
Investment and other income	86	56
	110	66
Expense:		
Idle mine expense	18	19
Administrative and general expense	40	28
	58	47
Operating profit for the period	52	19
Equity in net earnings of Rio Algom Mines Limited for the period	12,749	8,997
Net earnings for the period	**$12,801**	**$9,016**
Earnings per common share —Operating profit	**$ —**	**$ —**
—Net earnings for the period	**1.63**	**1.15**

Approved on behalf of the Board:

R. D. Armstrong, Director

G. R. Albino, Director

Subject to year-end audit and adjustments.